

## Message Text

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ACTION EB-04

INFO OCT-01 SS-04 EUR-03 NSC-04 CEA-01 FRB-03 INR-01  
CIAE-00 ISO-00 /021 W  
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P R 271546Z JUL 78  
FM AMEMBASSY PARIS  
TO DEPARTMENT OF TREASURY PRIORITY  
INFO SECSTATE WASHDC 5384  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY ROME  
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 02 PARIS 23646

USEEC

LIMDIS GREENBACK

E. O. 11652: GDS  
TAGS: EFIN  
SUBJECT: MORE FRENCH OBSERVATIONS ON EMS

REF: BRUSSELS 14452

SUMMARY:

IN CONVERSATIONS WITH THE ELYSEE AND THE BANK OF FRANCE,  
THE GOF CLEARLY DID NOT EXPECT THE U.K. TO JOIN AND WAS  
QUITE PREPARED TO PROCEED WITHOUT THEM.  
ITALY PROBABLY, AND THE REST OF THE EEC, EXCEPT IRELAND,  
WOULD BECOME MEMBERS. A FULL DISCUSSION OF THE EMS  
WITH THE U.S. TREASURY COULD BE EXPECTED AFTER THE EEC  
FINANCE MINISTERS' MEETING ON SEPTEMBER 18 AND BEFORE  
THE IMF ANNUAL MEETING.

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1. IN THE COURSE OF TWO SEPARATE CONVERSATIONS ON  
JULY 26, BETWEEN ECONOMINISTER AND DUTET (ELYSEE) AND  
BETWEEN ECONMINISTER, TREASURY ATTACHE AND CLAPPIER  
(GOVERNOR OF THE BANK OF FRANCE), A NUMBER OF FRENCH  
ATTITUDES AND POSITIONS CONCERNING THE EMS WERE MADE  
CLEARER. THEY ARE ARRANGED BY TOPIC.

## 2. MEMBERSHIP

CLAPPIER THOUGHT DAVID OWEN'S STATEMENT THAT A FUNDAMENTAL REVISION OF CAP WAS A CONDITION FOR UK ENTRY INTO EMS CONFIRMED THEIR EXPECTATION THAT THE UK WOULD NOT JOIN. HE CITED THREE REASONS:

- (A) A BELIEF THAT FLOATING RATES SUITED BRITAIN'S SITUATION,
- (B) A FEAR THAT MEMBERSHIP WOULD INVOLVE THEM IN FREQUENT DEVALUATIONS, AND
- (C) THE INABILITY OF ANY BRITISH GOVERNMENT TO TAKE IMPORTANT DECISIONS ON THE EVE OF ELECTIONS.

HE SPECULATED THAT THE SITUATION MIGHT CHANGE AFTER THE ELECTIONS. ON THE OTHER HAND, THE ITALIANS WOULD PROBABLY ENTER, IF NOT AT THE BEGINNING, THEN DURING 1979, BECAUSE WHILE PERCEIVING THEIR ECONOMIC INTERESTS IN MUCH THE SAME WAY AS THE U.K., THE EMS APPEALED TO THAT IMPORTANT SECTOR OF OPINION THAT SOUGHT EUROPEAN AGREEMENTS AS A SUBSTITUTE MEANS OF SECURING REALISTIC ECONOMIC POLICIES THAT FACED DOMESTIC OPPOSITION. OTHER COUNTRIES, WITH THE EXCEPTION OF IRELAND, WHOSE

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CLOSE RELATIONSHIP TO THE U.K. MADE ITS CASE UNCERTAIN, WOULD JOIN.

3. DUTET STATED THAT FRANCE AND GERMANY WOULD GO AHEAD NOW WITHOUT BRITAIN BECAUSE FAILURE OF THIS ENTERPRISE WOULD BE A "GREAT SETBACK" FOR EUROPE.

## 4. LIAISON WITH THE U.S.

BOTH UNDERSTOOD THE AMERICAN NEED TO KEEP INFORMED, GIVEN OUR LEGITIMATE CONCERNS ABOUT POSSIBLE EFFECTS ON THE DOLLAR. DUTET THOUGHT THE "LOGICAL" PLACE TO KEEP U.S. INFORMED IS THE EEC COUNCIL PRESIDENCY. THE FRENCH STAFF WORK WOULD BE UNDER THE DIRECTION OF HABERER AND DE LA GENIERE (FIRST DEPUTY GOVERNOR OF THE BANK OF FRANCE). CLAPPIER SAID HE WAS PREPARED TO KEEP THE EMBASSY INFORMED. HE THOUGHT, GIVEN THE WORK SCHEDULE LAID OUT AT BRUSSELS AND THE FINANCE MINISTERS'

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INFO SECSTATE WASHDC 5385  
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AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY ROME  
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C O N F I D E N T I A L SECTION 02 OF 02 PARIS 23646

LIMDIS GREEN

MEETING ON SEPTEMBER 18, THAT THE TIME TO HAVE A FULL  
DISCUSSION DIRECTLY WITH THE TREASURY WOULD BE JUST  
BEFORE THE ANNUAL IMF MEETING IN WASHINGTON. HE  
EXPECTED TO BE ON VACATION FOR MOST OF AUGUST.

##### 5. FRANCE'S ABILITY TO STAY WITHIN EMS

IN RESPONSE TO A QUESTION OF HOW CONFIDENT HE WAS THAT  
FRANCE COULD REMAIN IN THE SYSTEM, HE STATED THAT THE  
RECENT BEHAVIOR OF THE FRENCH FRANC AND HIS EXPECTATION  
THAT THE RATE OF PRICE RISE WOULD FALL TO 7 PERCENT AT  
THE END OF THE YEAR OFFERED SOME GROUNDS FOR BELIEVING  
THAT IT COULD. HE DENIED THAT THE EMS WAS MORE  
FLEXIBLE THAN THE SNAKE, REFERRING TO THE PHRASE IN  
THE BREMEN COMMUNIQUE TO THE EFFECT THAT IT WOULD BE AS  
STRICT: WHATEVER THE SYSTEM, PARTICIPATING COUNTRIES  
WOULD EVENTUALLY HAVE TO BRING THEIR RATES OF PRICE  
INCREASE CLOSER TOGETHER. IT WOULD BE MOST DESIRABLE  
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TO BRING THE AVERAGE DOWN TO THE LEVEL OF THE MOST STABLE

CURRENCY, BUT HE IMPLIED THAT RESULT WAS NOT LIKELY.  
EXCHANGE RATES WERE REGARDED AS ADJUSTABLE BUT NOT EVERY  
DAY OR EVERY MONTH.

6. IMF ARTICLES AND THE ADJUSTMENT PROCESS

WHEN ECONMINISTER STATED THAT ONE OF OUR CONCERNS WAS  
WHETHER THE EMS WOULD INTERFERE WITH ADJUSTMENT BY  
FLOATING RATES, DUTET RESPONDED: FRANCE IS FAITHFUL  
TO THE REVISED ARTICLE 4, AND THE IMF WOULD BE THE PLACE  
TO TALK ABOUT CHANGE. ARTICLE 4 ENVISAGES AN EVOLUTION-  
ARY PROCESS, BUT EVENTUAL CHANGE WOULD BE FAR DOWN THE  
ROAD IN THE LIGHT OF CHANGING FINANCIAL CIRCUMSTANCES  
AND MORE EXPERIENCE.

7. THE 7/24 MEETING OF EEC FINANCE MINISTERS

CLAPPIER SAID THE RESULTS WERE PURELY PROCEDURAL. ONE  
OF THE QUESTIONS TO BE STUDIED WAS TO DETERMINE HOW  
VIABLE THE ECU CONCEPT WAS IN PRACTICE.

8. CLAPPIER WAS EXTREMELY ARTICULATE AND WELL-ORGANIZED.  
BUT HE WAS OBVIOUSLY NOT YET PREPARED TO DISCUSS THE  
SHAPE OF AN EMS OR ITS POLICIES AS FRANCE SEES THEM NOR  
FRENCH DOMESTIC POLICY NEXT YEAR. HE DID SAY THAT HE  
APPRECIATED US CONCERNS AND QUESTIONS, INCLUDING OUR  
FEAR OF A DEFLATIONARY BIAS AND THAT ANSWERS WOULD BE  
PROVIDED IN DUE COURSE. HIS MOST INTERESTING OBSERVA-  
TION WAS THE CLEAR EXPECTATION THAT BRITAIN WOULD NOT  
JOIN IN THE END, THAT IT HAS BEEN EXPECTED AND HIS  
IMPLICIT JUDGEMENT, ALONG WITH DUTET'S EXPLICIT STATE-  
MENT, THAT IT WOULD CHANGE, IN NO WAY, THEIR RESOLVE TO  
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## Message Attributes

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**Disposition Comment:** 25 YEAR REVIEW  
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Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014